



# 12<sup>TH</sup> ANNUAL HEALTHCARE SUMMIT

## HEALTHCARE INDUSTRY OVERVIEW & STATE OF PLAY

The Paradox of Growth & Distress



Crestline



HURON



POLSINELLI

AIRA

October 30, 2024

  
Turnaround Management Association®  
Dallas/Ft. Worth

# Introductions and Contacts



**James E. Nugent**  
Managing Director  
Huron

Jim has over 35 years of experience providing business and financial advisory, transaction, performance

improvement, and restructuring and turnaround consulting services. Jim has substantial experience in the healthcare and life sciences industry advising and assisting over 175 company, lender and creditor clients including PPMs, physician groups, health systems, hospitals, physical therapy and DME providers, pharmaceutical companies, pharmacy distribution companies, medical device and equipment companies, dental support organizations (DSOs), homecare equipment and supply distributors, and senior living organizations, SNFs, and CCRCs with difficult and complex business and restructuring decisions and related implementation plans. Jim has served as Chief Restructuring Officer, CEO and CFO in an interim management capacity for healthcare companies during restructuring situations and periods of transition.

T: 630.334.2429  
E: [jenugent@hcg.com](mailto:jenugent@hcg.com)



**Steven List**  
Managing Director  
Crestline

Steven joined Crestline in March 2019. Mr. List has more than 25 years of expertise providing executive management,

interim management, turnaround, and financial/restructuring advisory services. Most recently he was a Partner of CR3 Partners, LLC, a national restructuring firm, with an individual focus on interim management, in- and out-of-court restructuring and M&A. Prior to that, Mr. List spent four years heading the corporate asset management group of Mount Kellett Capital Management, a \$7B Private Equity firm focused on special situations investments in North America, Europe, and Asia. Earlier in his career he worked with Mattress Giant Corporation, Crossroads LLC, and KPMG. Mr. List received his BBA in Accounting from the University of Oklahoma, and is a Certified Public Accountant (CPA), Certified Turnaround Professional (CTP) and Certified Insolvency and Restructuring Advisor (CIRA).

T: 817.769.1572  
E: [slist@crestlineinc.com](mailto:slist@crestlineinc.com)



**Jeremy R. Johnson**  
Shareholder  
Polsinelli

Jeremy provides clients with business-oriented legal guidance addressing their financial restructuring

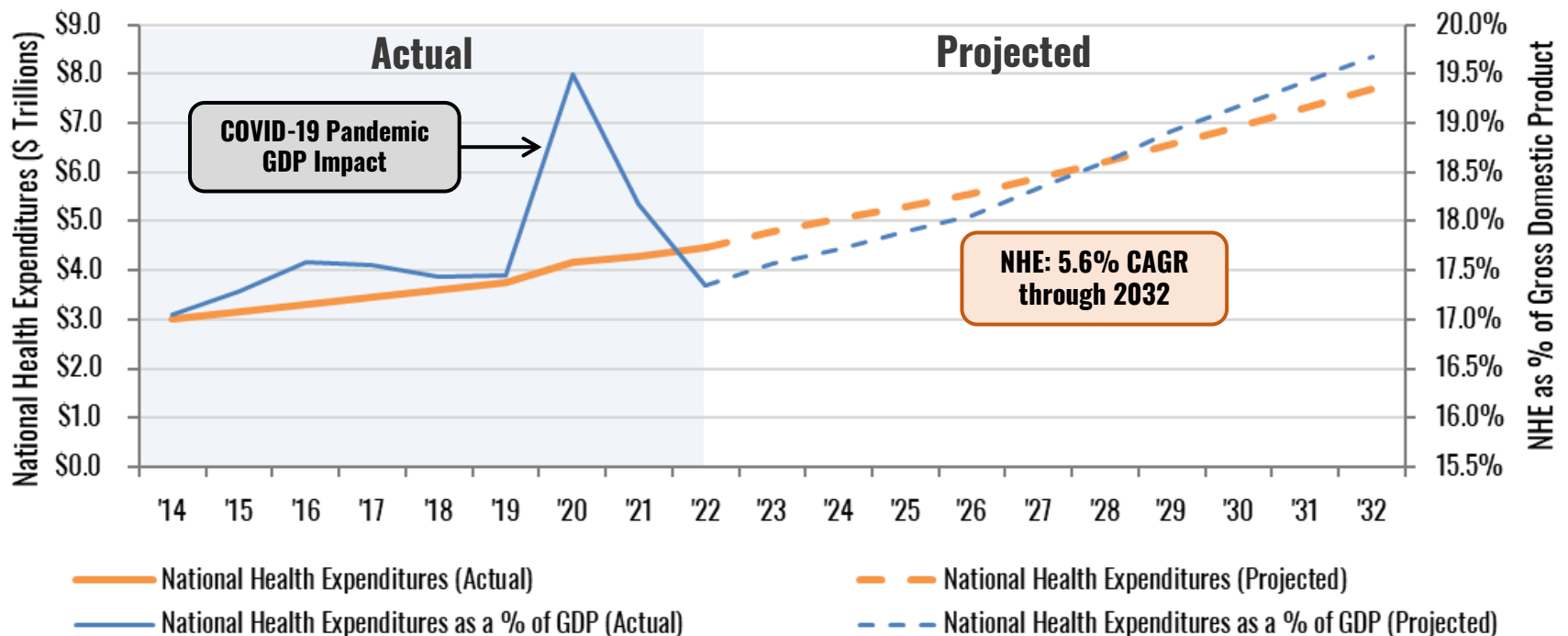
and insolvency issues, including transactional and litigation matters. Jeremy's financial restructuring practice focuses on representing distressed companies requiring out-of-court corporate or debt restructuring, debtors in Chapter 11 bankruptcy cases (reorganizations and liquidations), strategic and financial acquirers of distressed assets through section 363 asset sales or plans, healthy companies seeking protection from exposure to distressed entities, and private equity sponsors requiring advice on borrower or portfolio companies. Throughout his career, Jeremy has focused on distressed healthcare matters for different parts of the healthcare delivery system, including for-profit and not-for-profit hospitals, senior living and nursing home providers, ambulatory care and other providers, behavioral health providers, and strategic and financial purchasers of health care assets.

T: 312.873.3623  
E: [Jeremy.johnson@polsinelli.com](mailto:Jeremy.johnson@polsinelli.com)

# Healthcare Expenditures to Exceed \$7.5T by 2032

Significant drivers of healthcare expenditures include chronic conditions and the United States' aging demographics. Healthcare expenditures are expected to grow at a faster rate than GDP, **which is projected to cause healthcare as a percentage of GDP to increase to 19.7% in 2032.**

## National Healthcare Expenditures and NHE as a % of GDP (\$ in Trillions)



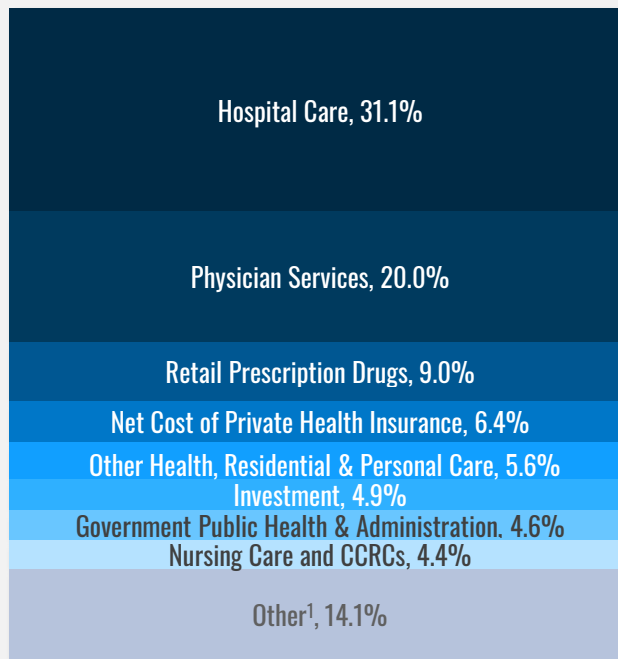
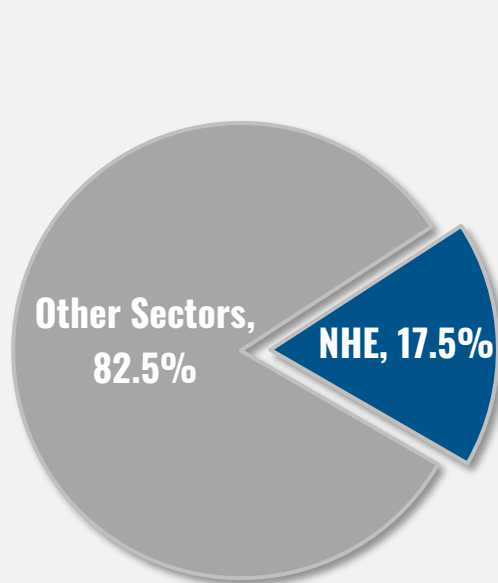
Source: Centers for Medicare & Medicaid Services, Office of the Actuary; U.S. Department of Commerce, Bureau of Economic Analysis; and U.S. Bureau of the Census.

# Government and Payor Reform is Focused on Economics

## Projected U.S. NHE as a Percentage of GDP for 2023

**\$27.3 Trillion GDP**

**\$4.7 Trillion NHE**



**51.1%** of expected 2023 NHE are comprised of **hospital care, ambulatory care and physician services.**

**Prescription drugs dispensed in retail, hospital and other provider settings** is estimated to be **\$722.5B, or 15.1% of NHE.**

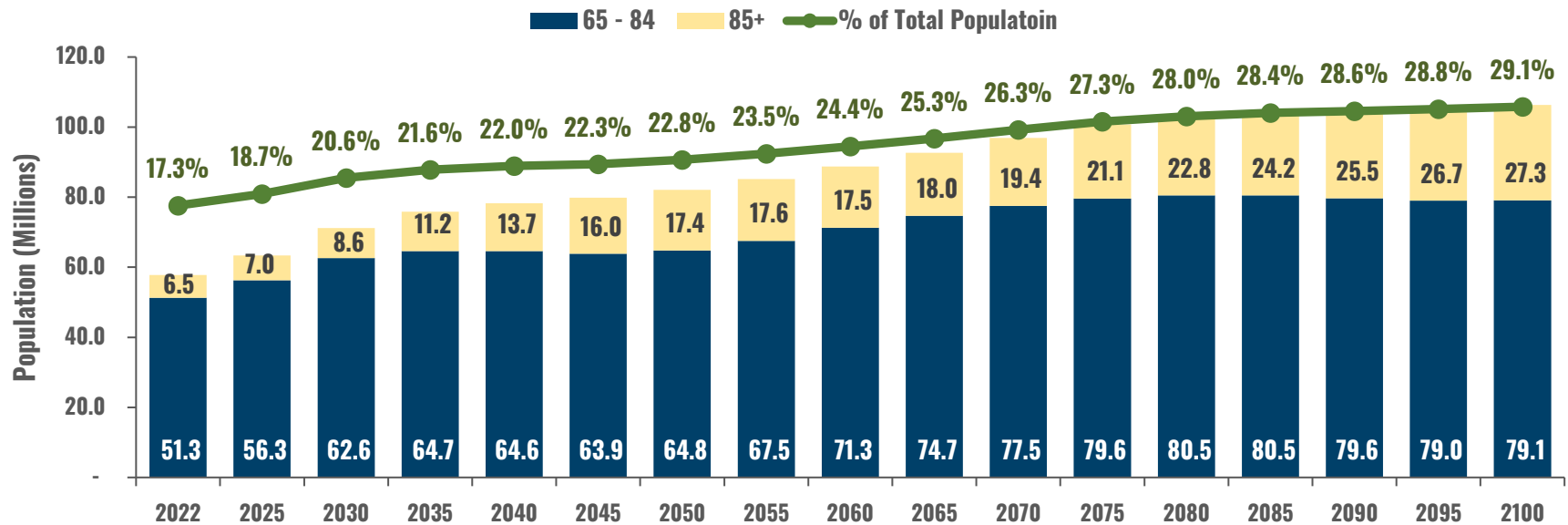
1. Other includes Dental Services (3.7%), Other Professional Services (3.3%), Home Healthcare (3.0%), Other Non-Durable Medical Products (2.7%), Durable Medical Equipment (1.5%).

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary; PubMed: National trends in prescription drug expenditures and projections for 2023.

# Aging Population is Significantly Impacting Utilization & Costs

- Healthcare spending on the 65+ age population is ~3x higher than <65. The 65+ population is expected to increase as a percentage of the total population as life expectancy continues to increase.
  - Average life expectancy is projected to increase to over 85 by 2060 versus ~79 in 2023.
  - More than 10,000 people are expected to turn 65 every day through 2030.
  - 85+ population is expected to grow by more than double the 65 to 84 population over the next 30 years.
- Average annual growth in Medicare spending is projected to be higher between 2021 and 2031 (8.3% CAGR) than between 2011 and 2021 (4.3% CAGR) due to population aging and growing Medicare enrollment, and related increased use of services, increased intensity of care, and rising healthcare costs.

## Projected Future Growth of Senior Populations



Sources: U.S. Census Bureau, Population Division, Health Management Associates: CMS releases national healthcare expenditure and enrollment projections through 2031, Macrotrends, Pew Research Center, KFF: What to Know about Medicare Spending and Financing, SeniorLiving.com

# Aging and Chronic Conditions Contribute to Enormous Costs

## Chronic conditions & aging will continue to stress the U.S. health system

- 52% of the 18+ population has 1+ chronic condition.
- ~64% of Medicare-eligible beneficiaries have 2+ chronic conditions.
- Despite an aging population and an increasing level of chronic conditions, downward reimbursement pressures will continue to negatively impact providers as:
  - CMS and payors seek to reduce costs.
  - Substantial number of states experiencing significant budget constraints seek to reduce costs.
  - Providers continue to need cash flow and access to capital to make technology investments.

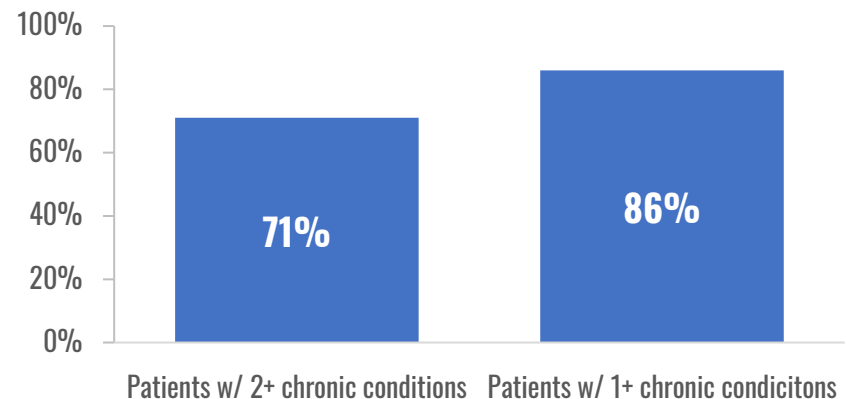
### Adults 18+ by Number of Chronic Conditions

Age Range	0	1	≥ 2
18 - 44	72.6%	20.7%	6.7%
45 - 64	36.6%	30.4%	33.0%
≥ 65	12.4%	23.9%	63.7%

(1) Based on data from the Agency for Healthcare Research and Quality's Medical Expenditures Panel Survey.

Sources: RAND Corporation: Multiple Chronic Conditions in the United States, PubMed Central: The Relation of the Chronic Disease Epidemic to the Health Care Crisis, Multiple Chronic Conditions Chartbook, Health For Life, United States Census Bureau, Center for Disease Control and Prevention, Macrotrends, Avalere Health

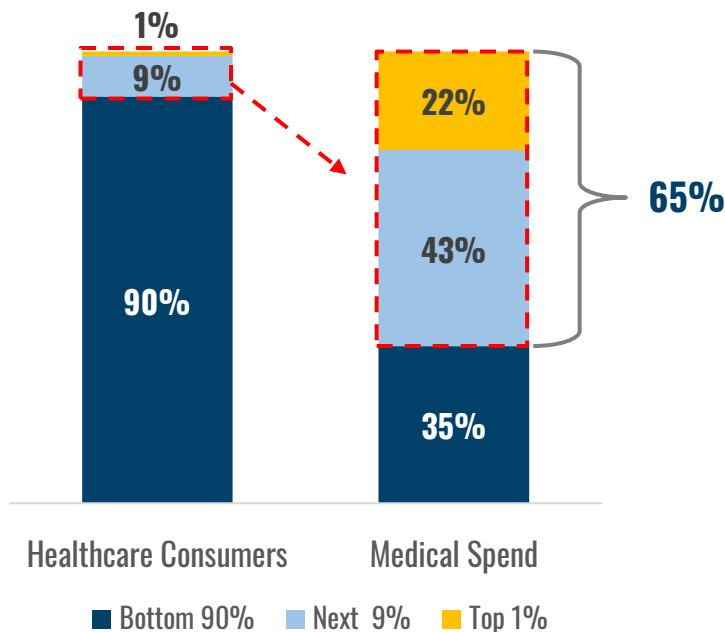
### % of Healthcare Spending by # of Chronic Conditions<sup>1</sup>



# 65% of Medical Spend\* Incurred by 10% of Population

A small portion of the patients incurs most annual healthcare costs and is difficult to manage as costs are incurred either due to existing chronic conditions, advance illnesses, or significant events.

## Percentage of Annual Medical Expenditures by Population



\*Medical Spend includes inpatient hospital care, physician care, pharmaceuticals, home care, dental, and other direct medical spending.

Sources: Peterson KFF "Health System Tracker," Medical Expenditure Panel Survey Proactively Identifying the High-Cost Population, Insights From The Health Care Transformation Task Force.

## High-Cost Patients Can Be Divided Into Three Subgroups...

### Patients with Advanced Illness

- Patients often nearing the end of life.
- 28% of Medicare spending occurs in the last six months of life.

### Patients with Persistent High Spending Patterns

- Patients with 2+ chronic conditions comprise a significant portion of the top 10% of population ranked by level of annual medical expenditures.

### Patients with Episodic High Spending

- Individuals which incur high costs due to a sudden event.
- Costs typically decrease as the condition resolves.

# Non-Traditional Entrants are Disrupting the Healthcare Market

Major insurers and retailers are seeking to increase revenues, utilize real estate, cut costs and increase margin by becoming providers...

Optum/  
United Healthcare

CVS Health/  
Aetna

Walgreens  
Healthcare Clinic

Amazon Prime/  
One Medical  
Walmart Health

BEST  
BUY /  
Current Health

Humana/  
Kindred at Home  
DG/  
DOCGO

...and Big Tech is investing in and developing new and innovative solutions impacting care delivery, revenues and costs.

Amazon Pharmacy/  
Pill Pack

Nvidia

Alphabet

Calico

Google

verily

IBM-Watson Health/  
Medtronic

Microsoft Cloud  
for Healthcare

TELADOC/  
Livongo Health

Source: Becker's Hospital Review; WSI; CNBC; Fierce Healthcare.



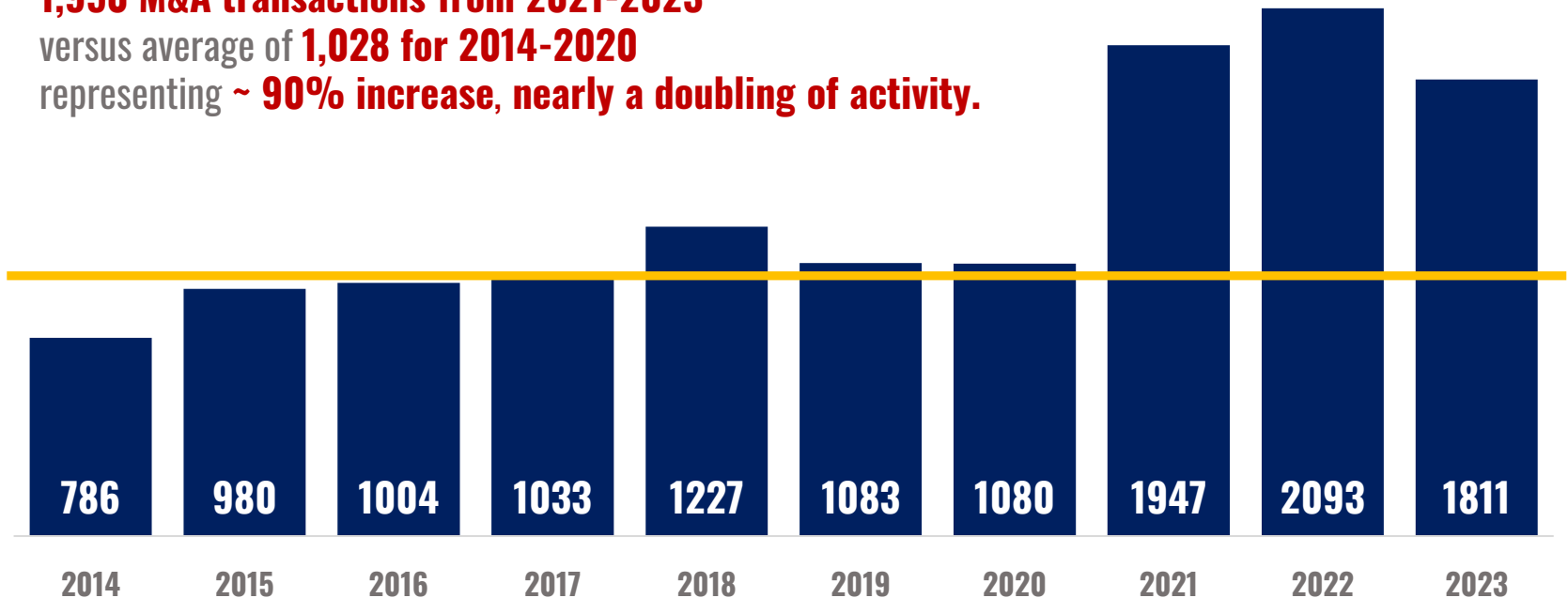
# Robust and Changing Healthcare Services M&A Environment

## *M&A Trends & Growth Opportunities in Healthcare Providers and Services*

Healthcare Services Mergers & Acquisitions Transactions by Year, (2014-2023)

■ Deals — 2014-2020 Avg.

There was an **average** of  
**1,950 M&A transactions from 2021-2023**  
versus average of **1,028 for 2014-2020**  
representing ~ **90% increase, nearly a doubling of activity.**

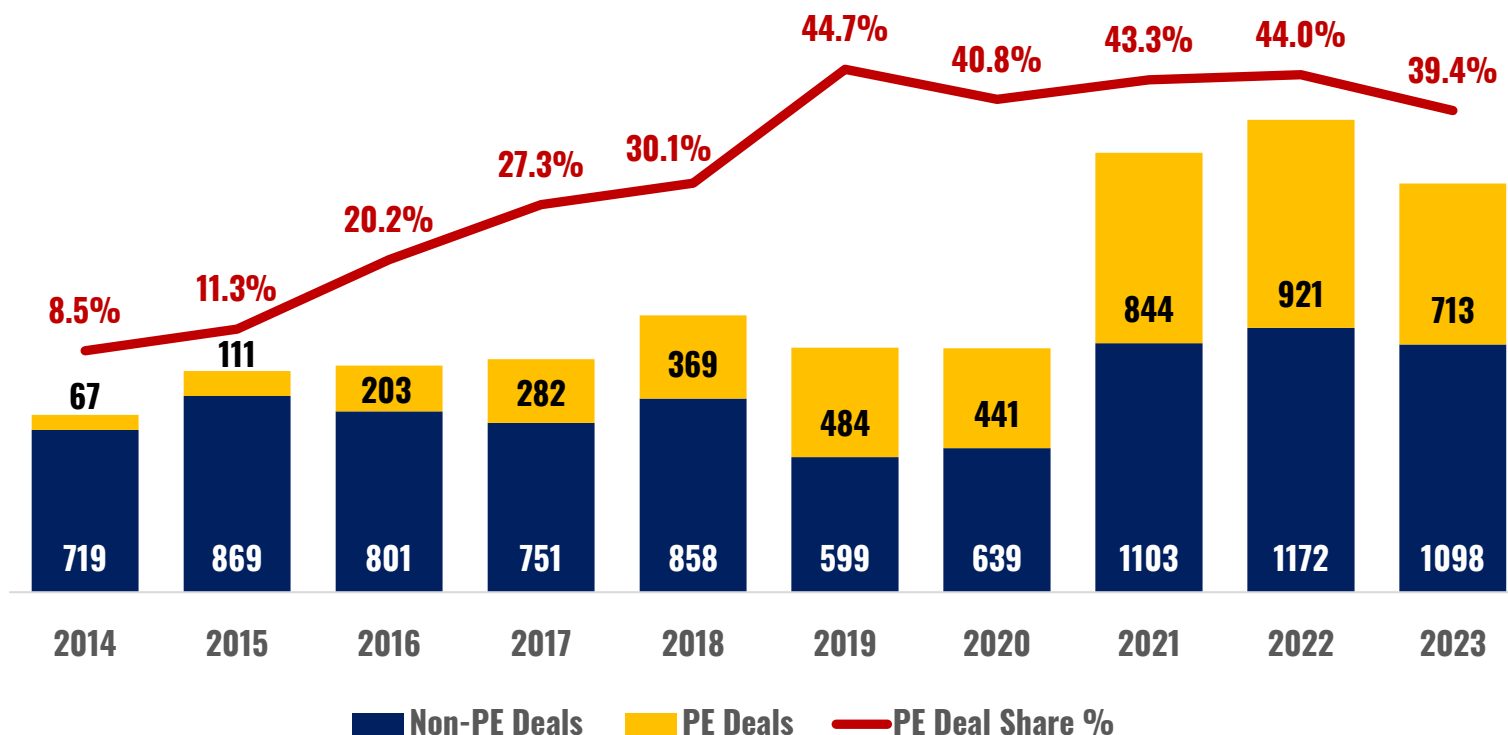


Source: LevinPro HC, Feb 2024 & Feb 2019

# PE Has Made a Substantial & Sustaining Investment in Healthcare

*M&A Trends & Growth Opportunities in Healthcare – Current PE Long Hold Periods, Lower Interest rates, and Available “Dry Powder” May Lead to Continuation of an Active M&A Market*

## Healthcare Services Mergers & Acquisitions Transactions by Year, (2014-2023)



Source: LevinPro HC, Feb 2024 & Feb 2019

# Key Industry Factors, Observations and Challenges:

## *Lender's Insights and Perspective on Healthcare*

- Healthcare is a large, diverse and growing industry with both premium investment return opportunities and significant risk considerations.
- The opportunities are fueling PE investment and private credit lending growth.

### **Desirable Industry Factors**

- **Inelastic, Non-cyclical Demand and Consistent Growth**
- **Technological Advancement Means Investment Growth Opportunity**
- **Reliable Revenue from Health Plans and Government Payors**
- **PE has been investing and has “Dry Powder” and Strategies /Other Significant Borrowers Investing to Meet Demand**
- **Expected M&A Activity**

### **Risks, Issues and Observations**

- **PE and Lenders Will Continue to Significantly Invest in Healthcare, But More Cautiously**
- **More Caution about Rollups and Opportunities that aren't High Growth**
- **Investment to Be Driven by Performance, but Relationships will Factor in with the Right Pricing and Leverage**
- **More Focus and Consideration on the Exit, Growth Opportunity, Pricing and Leverage**
- **Provider, Nursing & Staff Shortages Will Continue; Shortages Lead to Higher Wages and Utilization of High-Cost Temporary Labor Causing Downward Pressure on Margin**
- **Labor Shortages and Higher Wages Constrain Growth and Performance**
- **Reimbursement Is Not Keeping Up with Wage Increases and Inflation; CMS has implemented recent rate reductions and is proposing certain rate reductions in 2025**

# Key Industry Challenges and Observations:

## Legal and Business Insights and Perspective on Healthcare

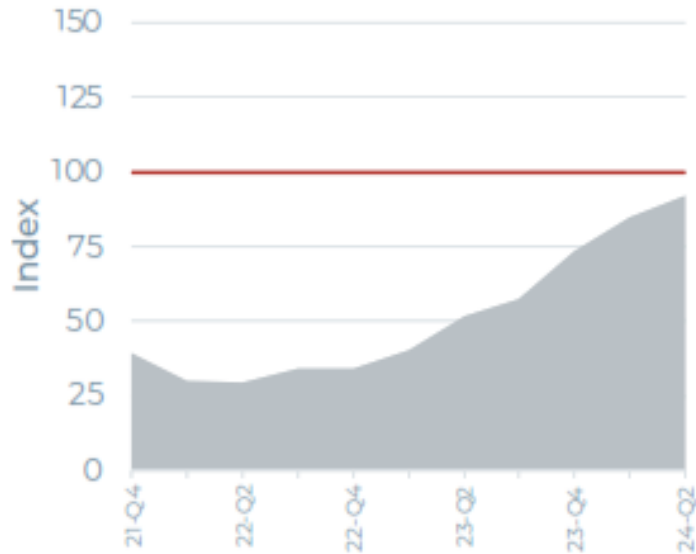
Regulation	Transaction/Investment Considerations	Challenges and Other Considerations
<b>Highly Regulated and Impactful</b> (e.g., Stark, Fraud, False Claims, NSA, and Reporting Requirements)	<b>White House And DOJ/ FTC Views and Review of M&amp;A Transactions</b>	<b>FTC Non-Compete Rule</b>
<b>Regulatory Scrutiny on Private Equity Transactions</b> (from Federal and State)	<b>State Notice and Review Requirements on M&amp;A Transactions</b>	<b>Litigation</b>
<b>CMS and State Field Reviews and Investigations</b>	<b>CON/ COE Requirements Regulate Investment and Competition</b>	<b>Cybersecurity Threats and Potential Legislation Requirements</b>

# Healthcare Distress & Chapter 11 Filings

Per the Polsinelli / TrBK Distress Indices Report, Chapter 11 Bankruptcies Across Industries for LTM 2021 - Q2 2024 are Lagging the Index of 2010, While Healthcare Services for LTM Q2 2023 Through Q2 2024 are Substantially Exceeding the 2010 Index.

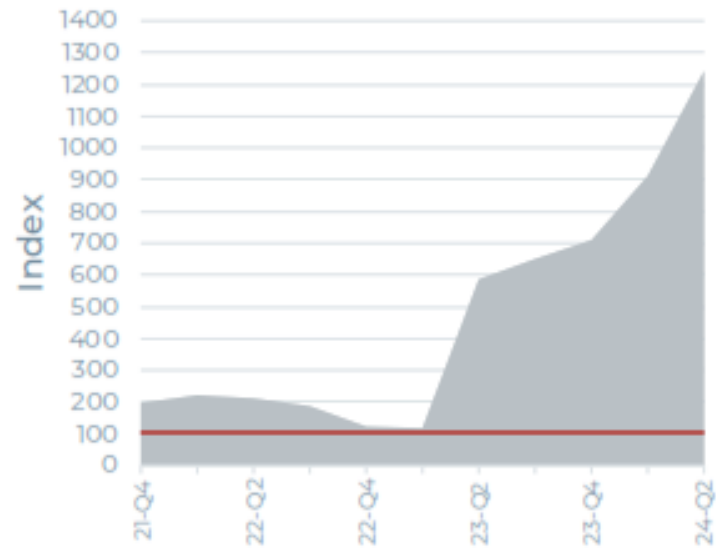
## Chapter 11 Distress Index (2021 – 2024)

*(Indexed to benchmark period of Q4-2010)*



## Healthcare Services Distress Index (2021 – 2024)

*(Indexed to benchmark period of Q4-2010)*



### Notes:

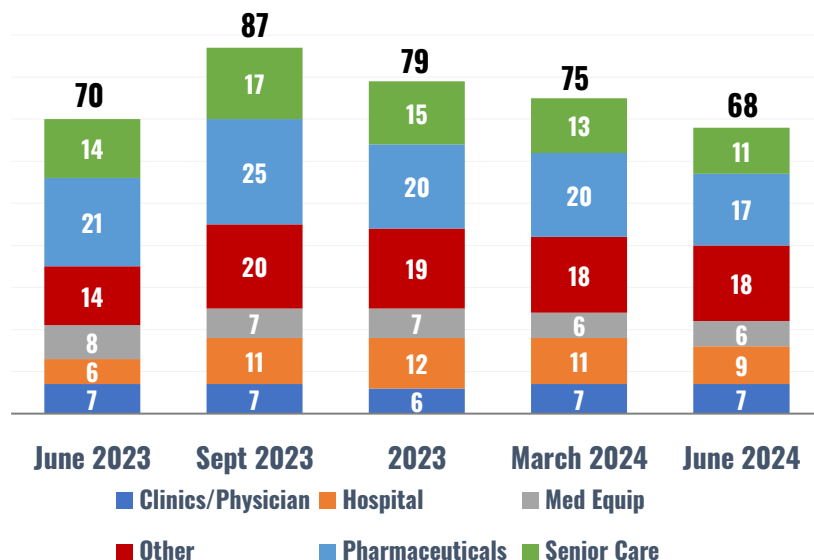
- (1) Chapter 11 bankruptcy filings are based on a rolling four quarter periods.
- (2) The Chapter 11 Distress Index is based on filings by entities with assets scheduled at greater than \$1 million as represented on initial Chapter 11 petitions. Individuals and involuntary filings are excluded from the calculation.
- (3) The Health Care Services Distress Index requires that the debtor be classified as a "health care business" as indicated on the Chapter 11 petition in order to be counted; based on this definition, non-service health care businesses are generally excluded from the Health Care Services Distress Index.

Source: Polsinelli|TrBK Distress Indices;

# Recent Healthcare Distress & Chapter 11 Filings

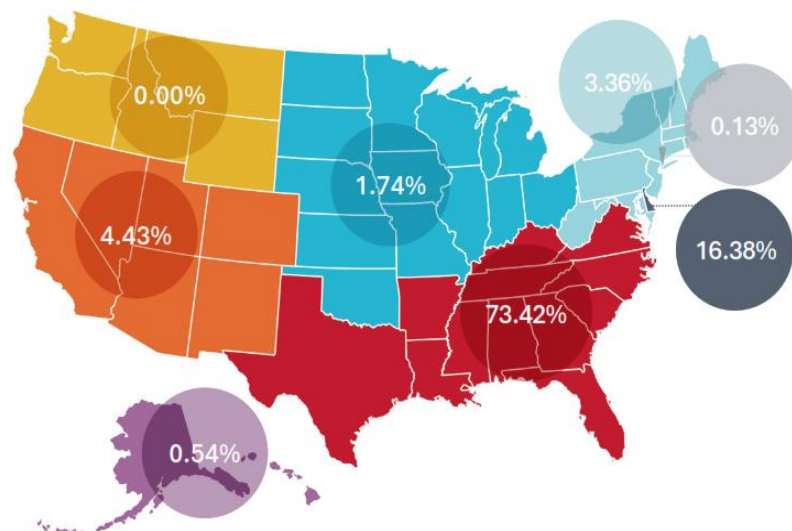
## LTM Quarterly Filings by Subsector

(Based on filings by entities with assets scheduled at greater than \$10 million)



## LTM Q2 2024 Healthcare Filings by Geography

(Based on filings by entities with assets scheduled at greater than \$1 million)



- Since the peak in Q3'23, filings have steadily declined; However, total filings are well above the 2019-2022 average of 42 filings per year.
- On an LTM basis, filings comprised of publicly traded companies have seen an uptick, while PE-backed and privately-owned filings have showed a decline.

- 73.4% of Chapter 11 bankruptcies for Q2'24 were filed in the Southeast, up from 66.9% in Q1.
- 60.0% of Q2'24 filings represented companies with assets of <\$500M, while 45.9% had assets <\$100M

*Note: Filings by healthcare subsector include organizations with liabilities in excess of \$10 million.  
Source: Polsinelli / TrBK Distress Indices; Gibbins Advisors (data from PACER and www.bankruptcydata.com)*

# Recent Healthcare Distress & Chapter 11 Filings

## LTM June 2024 Bankruptcy Filings and Key Contributing Factors

68 Total Filings	Pharmaceutical (25.0%)	Senior Care Facilities (16.2%)	Hospitals (13.2%)	Physician Practices (10.3%)	Medical Supplies/ Equipment (8.8%)
<b>Key Filings →</b> <b>Cited Contributing Factors ↓</b>	<ul style="list-style-type: none"> <li>Humanigen</li> <li>Athersys</li> <li>DMK</li> <li>Acorda</li> <li>Invitae</li> </ul>	<ul style="list-style-type: none"> <li>Petersen Health</li> <li>LaVie Care Centers</li> </ul>	<ul style="list-style-type: none"> <li>Steward</li> <li>St. Margaret's Health</li> <li>Mercy Iowa City</li> </ul>	<ul style="list-style-type: none"> <li>Cano Health</li> <li>Prime Plastic Surgery</li> <li>American Physician Partners</li> </ul>	<ul style="list-style-type: none"> <li>Vyaire Medical</li> <li>ProSomnus</li> <li>ViewRay, Inc.</li> <li>Molekule Group</li> </ul>
<b>High debt service</b>	×	×	×	×	×
Low-occupancy		×			
Staffing / labor shortage		×	×	×	
<b>Rising costs</b>		×	×	×	×
Aggressive growth				×	
Medicare Advantage				×	
<b>High interest rates</b>	×	×	×	×	×
Supply chain			×		×
Legal / IT troubles	×	×	×		
Weak performance	×	×	×	×	×

*Note: Filings by healthcare subsector include organizations with liabilities ≥\$10M million; subsequent Q2 2024 filings include companies such as Guardian Elder Care, Christian Horizons and MBMG Holding LLC.  
Source: Debtwire; WSJ; Gibbins Advisors (data from PACER and www.bankruptcydata.com); panel knowledge and experience.*

# Key Factors, Opportunities, Challenges and Observations in Healthcare by Industry Subsector

*Which Subsectors are Experiencing Tailwinds and Which Will Have Headwinds*

Providers & Services		Life Sciences & Technology
Health Systems and Hospitals	PPMs, DSO, and Physician Practices <i>(e.g., primary, MA Risk, specialty)</i>	Pharmaceutical and Pharmacy Distribution
Behavioral Health and Chemical Dependency	Home Health / DME, Personal Care, and Home Medical Supplies	Medical Device and Equipment
Rehabilitation and Physical Therapy	CCRCs, Senior Living and Skilled Nursing (SNFs)	Healthcare Information Technology (HCIT)



# Expectations and Predictions for 2025

*Will Healthcare Investment and Distress Increase, Decrease or Be Flat in 2025?*



M&A Transactions



Lending / Refinancing  
Activity



Private Equity  
Investment



LMEs, Restructurings &  
Bankruptcies



2024 Elections

# Questions?



AIRA

